

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2000-808

February 9, 2001

MAINE PUBLIC UTILITIES COMMISSION
Standard Offer Bidding Process

OPPORTUNITY TO COMMENT
ON RATEMAKING IMPACT OF
NEW STANDARD OFFER
PRICES

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

On February 28, 2001, the current standard offer arrangements will end for medium and large non-residential standard offer customers in Central Maine Power Company's (CMP) territory and for all standard offer customers in Bangor Hydro-Electric's (BHE) territory. On February 7, 2001, we approved wholesale supply arrangements and standard offer prices for medium and large non-residential standard offer customers in CMP's service territory. The resulting standard offer price for the medium non-residential standard offer customer class of 8.52 cents/kWh reflects an increase of approximately 40% over last year's standard offer prices and 25% over total electricity costs last year (standard offer plus T&D rates). For the large non-residential standard offer customer class, the new standard offer prices reflect an increase of approximately 50% over last year's standard offer prices, and increases of from 25% to almost 40% over total electricity costs last year.

Effective with the new standard offer period, new standard offer service prices for the BHE service territory are likewise expected to significantly increase. In addition, because of current market conditions, customers who are not on standard offer service but who have a retail supply contract that will soon terminate may face similar price increases in the competitive market. We seek comments on whether the Commission should take steps in order to mitigate the impact of these price increases.

Rate stability of electricity prices has long been a factor in our ratemaking decisions. Rate stability means the avoidance of substantial rate changes, particularly rate increases. *Investigation of Central Maine Power Company Stranded Costs, T&D Revenue Requirements and Rate Design*, Docket No. 97-580 at 114-115 (March 19, 1999) (CMP Phase I Megacase Order). For purposes of implementing T&D rates for CMP, our goal for success of electric restructuring, rate stability concerns, and the available value from CMP's divestiture of its generation assets, led us to adopt a "no-losers" test for designing T&D rates. No losers meant that no customer should experience a rate increase with the implementation of T&D rates on March 1, 2000. For purposes of deciding whether customers "rates" did not increase on March 1, 2000, we "re-bundled" generation costs and T&D rates. Even though, effective March 1, 2000, generation service became non-utility, deregulated service, we used generation service

costs, as represented by standard offer rates, to assure ourselves that “rates” did not increase. *CMP Phase II-B Megacase Order*, Docket No. 97-580 (Feb. 24, 2000).

Obviously, to achieve the goal of deregulating generation service while continuing to regulate delivery T&D service, the Commission eventually must exclude generation costs from T&D rates when assessing rate stability. However, given the size of increases expected, the imperfections of the wholesale generation market, and the lack of any retail generation suppliers for many customers, it would not appear that the time has come to exclude generation costs when assessing rate stability.

Given the significant standard offer increases already ordered for CMP’s medium and large non-residential customers, and the similar increases we expect for all BHE standard offer customers, the Commission is considering whether, by what amount and with what mechanisms these increases should be offset.

We seek comments on the following specific questions, as well as comments on any relevant issues that may be raised by the mitigation being considered.

- Should the Commission mitigate the impact of the price increases described above?
- If so, by how much?
- Assuming the Commission decided to mitigate price increases, e.g. by 1 cent/kWh, should the 1 cent/kWh be in the form of a reduction to T&D rates, a reduction to standard offer prices, a shopping credit to provide further stimulus to the competitive market or be reflected in some other manner?
- Assuming the Commission decided to mitigate these price increases, how should the amounts necessary to fund the mitigation be accounted for and recovered from ratepayers? Please address the timing of recovery as well as the mechanism.
- With respect to CMP’s service territory, please comment on the relative advantages and disadvantages of: (1) increasing the amortization of the asset sale gain account; or (2) creating a new regulatory asset account to offset March 1 price increases. Please also provide illustrative amortization schedules by which mitigation in the range of 1 cent/kWh for all core customers in classes that fall within the medium and large standard offer classes could be achieved.
- With respect to BHE’s service territory, please provide alternative amortization schedules for BHE’s asset sale gain account, Ultrapower buyout regulatory asset and/or other regulatory asset accounts by which mitigation in the range of 1 cent/kWh for all core customers could be achieved.

- If mitigation is accomplished by reducing T&D rates, should it apply to core rates only, or should special contract and targeted tariff rates be reduced as well?

Because the Commission must implement mitigation measures by March 1, we ask that comments be submitted by February 16, 2001. We will send this notice to the three IOU T&D utilities, all active intervenors in the three “mega-case” proceedings, and large trade associations and similar organizations representing groups of non-residential customers in CMP and BHE’s service territories for which the Commission possesses addresses for FAX numbers.

Dated at Augusta, Maine, this 9th day of February, 2001.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent
Diamond